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GENERAL

1. Menon sees need for Indian mediation in Korean political conference:

[redacted] Indian UN delegate Krishna Menon recently hinted [redacted] in New Delhi that India would be willing to act as a mediator in order to get a Korean political conference started, [redacted] Menon suggested that the UN Command prepare "minimum criteria" as a basis for mediation.

He reportedly also hinted at this idea in a talk on 19 January with [redacted]

Comment: This may be the first of the "compromise" proposals which India has been expected to bring forward to coincide with a possible UN General Assembly meeting.

India's recent difficulties in Korea apparently have not deterred it from seeking to play a leading role in a Korean settlement, as it did in connection with the Korean armistice resolution and the POW question. India presumably feels, however, that any plan for Indian mediation should appear to come from the UN.

2. Egyptian government reportedly plans to buy Soviet oil products:

[redacted] The Egyptian government recently requested an American oil company with a marketing organization in Egypt to participate in the distribution of Orbit petroleum products for which it was negotiating, [redacted]

The company rejected the proposal and Egypt thereupon indicated that unless it agrees to distribute Soviet products, it will invite the Soviet government to form a company for their sale in Egypt.

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Comment: Current Egyptian-Soviet trade negotiations reportedly include Soviet petroleum. The Egyptian-Rumanian trade agreement of 18 January also provides for shipment of petroleum products.

Egyptian petroleum imports, chiefly kerosene, amounting to less than 1,000,000 tons annually, are relatively insignificant. Most oil storage and distribution facilities in Egypt are controlled by Western companies. It is unlikely that the USSR would provide such facilities.

FAR EAST

3. South Korea seeking 35-division army:



South Korean officials on 24 January expressed a desire for American military aid to expand the army from 20 to 35 divisions, with corresponding air and naval development. Foreign

Minister Pyun told the American embassy that unless the proposals are met, South Korea may eventually collapse under Communist infiltration and pressure.

Ambassador Briggs comments that Pyun's observations amount to an attempt at blackmail and that Seoul's manpower and leadership capacities are already being strained by the present 20-division program.

Comment: Rhee has been seeking additional air power, primarily jets, from the United States, and this may be his opening bargaining tactic.

The Rhee-Dulles agreement of 8 August stipulates that South Korean forces shall remain under UN Command control until the US-South Korean mutual defense pact, which the United States Senate will soon consider, is ratified. If Rhee is unsuccessful in this latest demand, he is capable of renewing his threat to withdraw his troops from UN control and pressing for increased military aid from the United States.

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4. Large new steel center planned by Peiping:



Peiping radio reported on 12 January that "gigantic and unusually rich" iron deposits have been discovered near Paotou, 300 miles west of Peiping in Suiyuan Province, which warrant the construction of another steel center there comparable to China's only large one at Anshan, Manchuria.

Comment: Paotou is the planned site of one of two new steel centers to be built with Soviet aid.

Numerous refugees from Suiyuan in the past year have reported Russian advisers and extensive activity at the Pailingmiao iron mine, 90 miles north of Paotou, efforts to increase the capacity of the Peiping-Suiyuan railroad, and extension of the railroad from Paotou to the mine.

SOUTHEAST ASIA

5. French official sees possible need for American pilots and specialists in Indochina:



Secretary for Associated States Jacquet told Ambassador Heath in Saigon on 21 January that France must either produce some military victories in Indochina within the next few months or be forced by parliament to negotiate with the Viet Minh. He sees no possibility of a decisive defeat of the Viet Minh unless there is eventual American participation, perhaps in the form of a "foreign legion" consisting of pilots, mechanics, and military technicians.

Comment: The French have always opposed bringing American military personnel into Indochina, but recently requested more than 400 American maintenance specialists.

Although pressure on the French government for a solution in Indochina will probably increase in the absence of victories, France would probably seek a settlement in a conference in which Communist China was included before attempting direct negotiations with the Viet Minh.

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6. Eden says situation in Malaya deteriorating:

[redacted] During a private conversation with Secretary Dulles on 23 January, Foreign Secretary Eden said the situation in Malaya is deteriorating and causing considerable concern. He said that incidents of open hostilities are diminishing but are being replaced by more methods of infiltration which are more difficult to control.

Comment: A change in Communist tactics in Malaya from terrorism to subversion has been apparent since mid-1952. Indications that the Communists would revert to terrorism after December 1953 have not yet been borne out.

British counterintelligence has improved considerably but continues unequal to the task of uncovering Communist infiltration in the security forces, schools, resettled Chinese villages, and labor organizations. Officials in Malaya have frequently stated that the end of the emergency is not in sight, but they have not admitted even privately that the situation is deteriorating.

7. Burmese police alerted to Communist attacks:

[redacted] [redacted] the Communist insurgents had changed their tactics and were now openly committed to all-out armed attacks on the government. The ministry warned that the insurgents plan to attack lines of communication and weak spots in government-held areas, murder government supporters, promote local dissension, and subvert members of the armed forces.

Police units were ordered to cooperate with the army in taking appropriate countermeasures and were warned not to be deceived by any insurgent offers of a "local understanding."

Comment: [redacted]
[redacted]

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The Communists' failure to induce the government to accept a coalition against the Chinese Nationalist troops in Burma may have caused them to abandon a united front approach. Moreover, it is possible they anticipate a considerable increase in strength as a result of peasant dissatisfaction with the government's inability to absorb newly harvested rice for export.

NEAR EAST - AFRICA

8. Eden interested in northern Middle East defense arrangements:



In a conversation with Secretary Dulles on 23 January, Foreign Secretary Eden showed considerable interest in the idea of a "regional grouping" consisting of

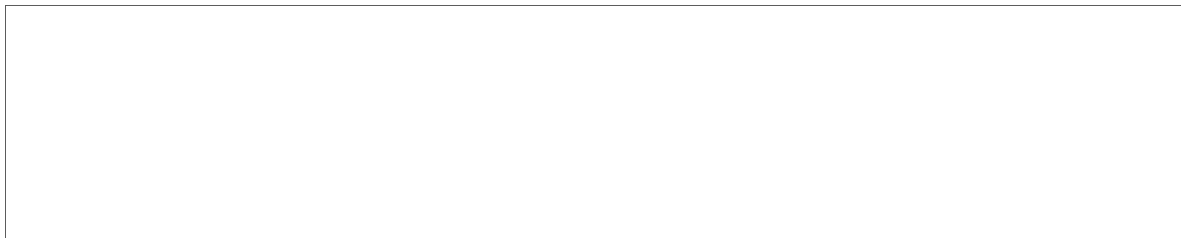
Turkey, Iraq, Iran, and Pakistan. He hoped particularly that Iraq would be included, apparently to make Egypt realize it was not essential to a Middle East defense project. He also indicated that India was annoyed that Britain was not opposing the idea.

Comment: Britain feels it has not been consulted closely enough on the American proposal for a northern Middle East defense arrangement. It may hope that the addition of Iraq, with which it has a treaty lasting until 1957, will result in closer British association with American plans for the area.

The present Iraqi government strongly favors improving Middle Eastern defenses, but its precarious political situation is likely to prevent its active cooperation.

EASTERN EUROPE

9. Czechoslovakia threatens to cancel certain exports to Hungary and Rumania:



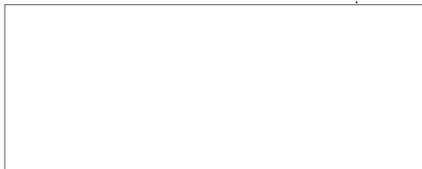
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Comment: This threatened action by Czechoslovakia reflects the priority given to the new internal Satellite economic programs, even at the expense of a disruption of inter-Satellite trade patterns. It emphasizes the seriousness of the meat shortage, previously revealed by Czech interest in imports of meat from Mexico, France and Austria. The Czech Ministry of Foreign Trade is undoubtedly aware that serious meat shortages also exist in Hungary and Rumania.

10. Hungarian 1954 plan reveals sharp cut in rate of industrial growth:

 Hungary's revised economic plan for 1954, as revealed by the State Planning Office on 22 January, calls for a sharp drop in the rate of industrial growth. Industrial production is to rise only 4.5 percent, in contrast with increases of 11.8 percent in 1953 and 23.6 percent in 1952.

Total investment will be cut over 25 percent and investment in heavy industry will be nearly halved. In contrast to this general trend, investment in agriculture will be almost 70 percent larger than last year, and larger sums are allotted to the production of consumer goods. The portion of the gross national product allotted to consumers will increase by 21 percent.

Comment: The cutback in Hungary's plan for the development of industry is the most drastic announced in any Satellite. The sharp increase in the purchasing power of workers and peasants already provided for will intensify inflationary pressures and confront the regime with adverse consequences if it is unable to make good its promise of more consumer goods.

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WESTERN EUROPE

11. Spain presses for over-all settlement of disputes with France:

[REDACTED] Ambassador Dunn in Madrid states that the Spanish government regards the Moroccan issue mainly as a means of pressing Paris to consider larger questions. Foreign Minister Artajo told him on 20 January that Spain wants a complete change in its relations with France, which have been "hopeless," as well as a general discussion of all outstanding problems, including the activities of Spanish exiles in southern France and France's "bitter opposition" to Spanish membership in NATO.

Artajo stated that Spain would not destroy Moroccan unity by promoting the separation of the Spanish zone from the rest of Morocco, "since this would be throwing stones at our own glass house."

Comment: The favorable Arab reactions to recent Spanish moves will encourage Madrid to continue its present tactics until Paris shows a willingness to discuss outstanding problems.

LATIN AMERICA

12. Possibility of coup increases in Honduras:

[REDACTED] The American embassy in Tegucigalpa believes that the possibility of early disorders or a military coup is growing in Honduras. High army officers are openly taking sides with the two rival factions of the ruling Nationalist Party. A crisis may develop on 28 January, when the Honduran congress is scheduled to set the date for presidential elections.

Comment: In control for 20 years, the Nationalist Party's "old guard," which remains loyal to ex-dictator Carias, is opposed by a "reformist" faction supporting the moderate

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and popular President Galvez. The presidential and congressional elections, due in October, are forcing the closely matched factions, both oriented toward the United States, into an increasingly bitter struggle for power.

A continued split in the Nationalist Party would enhance the electoral prospects of the Communist-infiltrated opposition Liberal Party.

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